Court File No. CV-19-616077-00CL

***ONTARIO***
**SUPERIOR COURT OF JUSTICE**
**(COMMERCIAL LIST)**

IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF IMPERIAL TOBACCO CANADA LIMITED AND IMPERIAL TOBACCO COMPANY LIMITED

APPLICANTS

# RESPONDING MOTION RECORD OF THE APPLICANTS IMPERIAL TOBACCO CANADA LIMITED AND IMPERIAL TOBACCO COMPANY LIMITED FOR COMEBACK HEARING

**(Returnable April 4 and 5, 2019)**

April 2, 2019


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Court File No. CV-19-616077-00CL

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**SUPERIOR COURT OF JUSTICE**
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IN THE MATTER OF THE *COMPANIES' CREDITORS ARRANGEMENT ACT*,
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AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF
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Global Legal Editor

# TABLE OF CONTENTS

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**TABLE OF CONTENTS**


| TAB | DOCUMENT | | PAGE |
|---|---|---|---|
| 1. | Affidavit of Eric Thauvette, sworn April 2, 2019 | | 1 |
| | Exhibit "A" | Excerpt from 2012 British American Tobacco Annual Report | 18 |
| | Exhibit "B" | Excerpt from June 2014 Presentation by British American Tobacco's Finance Director | 21 |
| | Exhibit "C" | Excerpt from 2018 British American Tobacco Annual Report | 26 |

# TAB 1

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**AFFIDAVIT OF ERIC THAUVETTE**

**(Sworn April 2, 2019)**

I, Eric Thauvette, of the City of Montreal, in the Province of Quebec, the Vice President and Chief Financial Officer of Imperial Tobacco Canada Limited ("ITCAN"), MAKE OATH AND SAY:

1. I am the Chief Financial Officer of ITCAN and, in that role, I am responsible for all financial-related aspects of ITCAN's business operations. I am also an officer and director of ITCAN's subsidiary and the other applicant, Imperial Tobacco Company Limited (collectively with ITCAN, the "Applicants"). As such, I have personal knowledge of the matters deposed to herein. Where I have relied on other sources for information, I have stated the sources of my information and believe them to be true. In preparing this Affidavit, I have consulted with other members of the Applicants' senior management team, legal, financial and other advisors of the Applicants, and representatives of the Monitor.

2. I am swearing this Affidavit in response to the motion brought by the representative plaintiffs (the "Quebec Class Action Plaintiffs") in the Letourneau and Blais class actions (the "Quebec Class Actions") for an order, among other things, prohibiting the Applicants from making

any payments to members of the BAT Group and the ITCAN Subsidiaries (both terms defined below), except payments for physical inventory actually supplied by such parties.

3. The relief sought by the Quebec Class Action Plaintiffs betrays a fundamental lack of understanding on their part about the Applicants' business. The Applicants' operations have been integrated with the BAT Group over the years to take advantage of the BAT Group's scale and its collective resources. The Applicants outsource many business critical services to the BAT Group, ranging from the most basic accounting functions like accounts payable and receivables to the critically important research and development ("R&D") function required for protecting the Applicants' market share. The costs of these shared services are allocated to the BAT Group members across the world, all of which benefit from them, and this integration has successfully resulted in reduced operating costs and increased profitability for the Applicants.

4. This Affidavit is organized in the following sections:

I. The Applicants are Part of a Global, Highly-Integrated Business ..... 3
II. The BAT Group Provides Critical Services ..... 5
(a) Manufacturing Services ..... 6
(b) Innovation Royalties ..... 6
(c) SAP and IT ..... 7
(d) Product Development and Testing ..... 8
(e) Accounting and Human Resources Services ..... 8
(f) Technical and Advisory Services ..... 10
III. The Services Provided by the BAT Group are Necessary for the Applicants' Business .. 12
IV. The Payments to the BAT Group are not a Transfer of Profits ..... 13
V. Payments to ITCAN Subsidiaries ..... 14
VI. Other Issues ..... 15
(a) The Applicants Have Many Tobacco Litigation Stakeholders in Addition to the Quebec Class Action Plaintiffs ..... 15
(b) The Applicants Made Full Disclosure at the Initial Order Hearing ..... 15
(c) There are no Life Insurance Policies Related to the Genstar Deferred Income Plans ... 17

VII. Conclusion ........ 17

## *I. The Applicants are Part of a Global, Highly-Integrated Business*

5. British American Tobacco p.l.c. ("BAT") is the ultimate holding company of ITCAN and numerous other BAT affiliates (the "BAT Group"). The BAT Group is a leading, multi-category consumer goods business that sells tobacco and nicotine products to millions of consumers in over 200 markets around the world. The Applicants are part of that global business.

6. Until the early 2000s, the Applicants performed many of their manufacturing and back-office functions in Canada. On February 1, 2000, ITCAN became a wholly-owned indirect subsidiary of BAT, following which the Applicants commenced becoming increasingly integrated with the global BAT Group business. That integration has fundamentally altered the Applicants' business and operations. For example, the Applicants no longer have Canadian manufacturing facilities and purchase finished products from BAT Group members that are manufactured in various countries including Mexico.

7. When it acquired ITCAN, the BAT Group was operating in a decentralized manner as a result of acquiring numerous companies located across the world. Each acquisition came with its own historical governance and business platform. As a result, each market in the BAT Group was operating independently with a high degree of non-standardized processes and functions. In order to drive long-term sustainable growth, the BAT Group concluded it needed to become a truly global and integrated business.

8. The BAT Group therefore implemented an extensive business-change program called Project TaO over the past decade. As a first step, BAT developed a Target Operating Model ("TOM") that simplified and standardised ways of working across different functional areas of the

BAT Group's business. This included common processes, controls, reporting, data, definitions, and consistently-designed organization structures.

9. The TOM was followed by the introduction of a Global SAP Enterprise Resource Planning ("ERP") template that would support the core, standardized TOM processes. The roll out of Global SAP occurred in stages across the world between 2013 and 2017. It was implemented in Canada in July 2015.

10. Project TaO and the BAT Group's efforts to achieve greater integration have been part of the BAT Group's public disclosures and its declared business strategy. For example, attached as Exhibit "A" is an except from BAT's 2012 Annual Report noting that the BAT Group had started "a medium-term programme to implement a new operating model" for integrating various business functions, underpinned by a single SAP. Attached as Exhibit "B" is an excerpt from a presentation by BAT's Finance Director at a conference in June 2014 highlighting Project TaO as an opportunity for improving the BAT Group's profit margins. Finally, attached as Exhibit "C" is an excerpt from BAT's 2018 Annual Report stating that increasing integration is one of BAT's main business strategies, which had resulted in considerable savings in the areas of procurement, international logistics, and leaf operations.

11. The integration of the BAT Group business means that it is able to better leverage economies of scale in a range of business functions such as procurement of raw materials or products, R&D, back-office functions, and financing. This has benefited the Applicants in several respects:

(a) *Increased Profitability*: The Applicants are able to get their products and services at a lower cost and leverage operational efficiencies. For example, ITCAN benefits from the exponentially increased buying power of the BAT Group when it purchases various products and services relating to the operation of the business. As a result, the Applicants have been able to reduce their net operating expenses and increase profitability.

(b) *Centres with Expertise in Business Functions*: Standardizing and centralizing business functions allows for centres with expertise in particular business functions. For example, the Applicants receive support from a specialized Regional Product Centre ("RPC") for the development of new products, the maintenance of existing products, ensuring compliance with regulatory and legal requirements, and delivering productivity savings. As discussed in greater detail below, the Applicants also receive support from centres with expertise in the areas of finance, accounting, human resources and R&D, among others.

(c) *Better Business Plans*: Regional plans are developed based on pooled data from all markets. This allows the Applicants to benefit from more accurate supply and demand forecasting.

(d) *Access to Better Products*: The Applicants benefit from a more extensive and better-resourced R&D operation. As a result, they have access to market-leading product lines, which are key to maintaining and growing market share.

## *II. The BAT Group Provides Critical Services*

12. In this section, I describe the many products and services the Applicants receive from other members of the BAT Group.

(a) ***Manufacturing Services***

13. The Applicants do not manufacture any of the tobacco products or the potentially reduced-risk products ("PRRPs") they sell. ITCAN buys raw materials and pays an assembly fee to Bastos du Canada Limitée, a competitor, to manufacture a small amount of Marlboro and other branded cigarettes in Quebec. Apart from that, ITCAN purchases finished products from members of the BAT Group.

14. The products purchased by the Applicants consist of the following:

(a) ITCAN purchases most of its finished tobacco products from British American Tobacco Mexico S.A. de C.V. and imports them into Canada.

(b) ITCAN purchases certain finished Vogue super slim, DuMaurier super slim, and Pall Mall super slim cigarettes from British American Tobacco (Supply Chain WE) Limited. These cigarettes are imported from Poland and Switzerland.

(c) ITCAN purchases certain finished John Player Choice cigarettes from Souza Cruz S.A. ("Souza Cruz"). These cigarettes are imported from Brazil.

(d) ITCAN acquires the PRRPs (Glo Products and Vype Products) from Nicoventures Trading Limited ("Nicoventures"). Nicoventures sources the PRRPs from China.

(b) ***Innovation Royalties***

15. ITCAN pays innovation royalties to BAT for access to innovations and technology (including patents, know-how, rights in design, copyright, database rights, and plant variety rights) and communications packages (including advertising, packaging, copy, graphics, point of sale, and merchandising materials). There are no royalty payments payable by the Applicants to BAT Group

members for the use of any trademarks as all of the Applicants' trademarks are held by their Canadian subsidiaries.

16. Innovation has been identified as a key driver of growth. As traditional marketing methods have become more restricted for tobacco, product innovation and differentiation has grown in importance. As a result, the marketing and product organizations in the BAT Group have become specialized so that it can deliver marketing services and innovations of a high quality to end-markets more efficiently. Among other things, this includes the creation of (a) International Brand Groups that focus on maintaining the long-term value of assigned brands; (b) an Innovation Framework that is implemented by various teams, including a Central Strategic Planning & Insights team, a Combustible Product Discovery department, and a Central Product Development department; and (c) Marketing Protocols which govern all marketing projects.

17. The products sold by the Applicants include a number of innovations developed by the BAT Group that have distinguished them from competitors in the Canadian marketplace, such as Reloc (a resealable pack technology that keeps cigarettes fresher after the pack has been opened) and new tube filters (that improve hygiene).

18. ITCAN pays BAT 3% or 5%, depending on the brand, of its yearly net sales revenue on account of Innovation Royalties for sales of du Maurier, Pall Mall, Viceroy, John Player, and Vogue brand products. This amounted to approximately $46.8 million in 2018, with installments remitted monthly.

(c) ***SAP and IT***

19. Under Project TaO, the BAT Group centralized its SAP ERP functions and processes. ITCAN's computer systems were fully integrated with the BAT Group's on a global

SAP computer platform as of July 2015. The systems integration involves all digital data and programs being hosted on a global server located in Europe. ITCAN paid $13.3 million to BASS (GSD) Ltd. in 2018 with installments remitted quarterly for its SAP and IT infrastructure.

20. In addition, Souza Cruz in Brazil provides ITCAN with a full range of IT services including data centre management, local infrastructure management, application support services, service desks, on-site user support, WAN & LAN services, security services, software maintenance and licensing, and project design and build services. ITCAN paid approximately $2.8 million in 2018 to Souza Cruz in relation to IT services with installments remitted monthly.

(d) ***Product Development and Testing***

21. The BAT Group's RPCs provide support to end-market companies for the development of new products, the maintenance of existing products, ensuring compliance with regulatory and legal requirements, and delivering productivity savings. RPCs provide these services in relation to tobacco products, tobacco blends, and the packaging in which products are sold. The RPC for the Americas is maintained by Sousa Cruz in Brazil. ITCAN paid approximately $4.5 million in 2018 to Souza Cruz for product development and ancillary product testing with installments remitted monthly.

(e) ***Accounting and Human Resources Services***

22. The BAT Group established a Finance Shared Service Centre ("FSSC") under British American Tobacco Caribbean & Central America ("BATCCA"), a BAT affiliate in Costa Rica, which provides transaction processing services for accounting functions to BAT end-market companies within the Americas region.

23. The services provided by the FSSC include the following:

(a) Procure to Pay services, which includes all accounts payable functions and carrying out day-to-day banking functions on behalf of the Applicants to make payments to vendors.

(b) Record to Report services, which covers day-to-day financial reporting activities and all accounts receivable functions.

(c) Master Data Management services, which involves the creation, updating and maintenance of master data such as vendor data, non-stock related customer data, exchange rates, and internal orders.

(d) A Finance Service Desk that serves as a point of contact for handling and resolving all queries and complaints related to services provided by FSSC, whether within the BAT Group or externally (*e.g.*, suppliers).

(e) Certain treasury services, including bank accounts funding, cash availability analysis, foreign exchange negotiation and purchase, and current accounts management.

(f) Human resources and payroll services.

24. In 2018, ITCAN paid approximately $2.9 million to BATCCA for providing all of these services with installments remitted quarterly.

(f) ***Technical and Advisory Services***

25. As part of integrating its business globally, the BAT Group centralized a number of back-office, support, and leadership functions that are provided from the centre or at the regional level. The functions performed at the centre or regional level includes the following:

(a) *Operations (central and regional)*: Includes supply chain planning, developing the BAT Group's operations approach and transformation programs, services and procurement, manufacturing, logistics, environment, health and safety, operations finance, and operations HR.

(b) *Finance (central and regional)*: Includes accounting, tax, and audit activities, treasury functions, investor relations, and insurance services. The BAT Group has centralized the provision of financial services with a central Treasury team based in the U.K. In addition, several companies have been set up to carry out financial transactions for other members of the BAT Group. For example, B.A.T. International Finance p.l.c. ("BATIF") is a dedicated treasury company which undertakes the majority of financing transactions with members of the BAT Group. The Applicants receive a number of financial services from these BAT Group companies:

(i) *Credit Arrangements*: ITCAN's credit arrangements are extended by BATIF. A Master Intra-Group Treasury Products Agreement sets out the framework for procedures and conditions applicable to all loans made between members of the BAT Group on arm's length terms. As of June 28, 2018, ITCAN has a $30 million committed secured revolving credit facility that matures on June 28, 2019. No amounts were owing under this facility on the filing date and the Applicants expect that they will not need to borrow any amounts under this facility during the pendency of this CCAA proceeding.

(ii) *Foreign Exchange Transactions*: ITCAN purchases foreign currencies periodically from BATIF pursuant to a Dealing Mandate agreement in order to pay certain payables denominated in the applicable foreign currency. In addition, ITCAN enters into foreign exchange forward contracts with BATIF for terms not exceeding 18 months in order to manage its foreign currency exposure.

(iii) *Inter-Company Netting*: All inter-company transactions between BAT Group members are pooled together and netted so that each company receives or pays one net amount. The amounts owing are paid to or by BATIF.

(iv) *Insurance*: The BAT Group operates global insurance programs that are underwritten by a panel of insurers, including third-party insurers. Purchasing insurance on a global basis is considered more cost effective, results in wider policy coverage at long-term sustainable prices, and reduced volatility. The Applicants have purchased their property, liability, marine cargo, in-transit, and some of their director and officers' insurance policies from third-party insurers through BAT Group programs.

(c) *Marketing (central and regional)*: Includes marketing strategy and planning, trade marketing, development of marketing tools, commercial finance, and a central advertising agency.

(d) *HR (central and regional)*: Includes HR strategy and planning, organizational development and effectiveness, and reward and development activities.

(e) *Strategy and Planning (central and regional)*: Includes group strategy execution and planning, competitor and industry intelligence, Enterprise Operating Model and Portfolio, and project management.

(f) *Directors (central only)*: Includes setting strategic goals, defining group strategy, and reviewing financial information.

(g) *Mergers and Acquisitions (central only)*: Includes assistance with the assessment and management of acquisitions of businesses for the BAT Group.

(h) *Legal & External Affairs (central and regional)*: Includes the management of strategic litigation, advice and engagement on regulatory, fiscal and trade matters, management of intellectual property and supplier contracts, corporate communications, maintaining BAT Group security, and corporate legal activities.

(i) *R&D (central only)*: Includes product stewardship, scientific communication, and research support services. This R&D is primarily related to the PRRPs, including the development of new Glo and Vype Products, studies on harm reduction, assessment of ingredient safety and the shelf life of products, and the substantiation of product ideas.

26. In 2018, ITCAN paid BAT Investments Ltd. technical and advisory fees of approximately $26.8 million with installments remitted quarterly.

## *III. The Services Provided by the BAT Group are Necessary for the Applicants' Business*

27. The services that the BAT Group provides are collectively vital for preserving the value of the underlying business and necessary for any large, modern-day business. The Applicants are completely reliant on the services provided by the BAT Group and the cessation or interruption of such services would bring the Applicants' operations to a virtual standstill.

28. For example, without access to its IT systems and the BAT Group's Global SAP system, the Applicants would not be able to order any inventory to sell to their customers because these orders are all placed automatically through the BAT Group's SAP system. In addition, without the accounts receivable services that are provided by a BAT affiliate, the Applicants would be unable to collect payments for the products they sell.

29. The loss of the services provided by the BAT Group would be detrimental in other, longer-term ways as well. If the Applicants stopped paying the Innovation Royalties, they would lose the ability to leverage innovations. Such product-distinguishing innovations are particularly significant in Canada because the marketing of tobacco is highly restricted. As a result, without the ability to use innovations, the Applicants would be exposed to a serious risk of losing market share to their competitors or the illegal tobacco market.

30. If the Applicants were precluded from relying on the BAT Group, the Applicants would have to develop the capabilities to deliver those services in order to maintain operations. It is far from certain that the Applicants could do that given their integration with the BAT Group, which cannot be replicated by other service providers. And even if it was possible to develop the necessary capabilities, it could only happen after the risk of significant disruption to the Applicants' business and profitability.

## *IV. The Payments to the BAT Group are not a Transfer of Profits*

31. The Quebec Class Action Plaintiffs have tried to create the impression that the Applicants' payments to members of the BAT Group are a transfer of profit. This is inaccurate. These payments represent the cost of running the Applicants' business. If the Applicants were not accessing these services from the BAT Group, they would have to either purchase them from third-parties or develop the capability to provide them in-house with a corresponding cost. As a result, the payments would not be retained by the Applicants as profits.

32. It is important to note that the Applicants have not been transferring any of their profits to the BAT Group as they have not paid any dividends since 2014. There is simply no basis for asserting that the Applicants' profits are being transferred to the BAT Group.

## *V. Payments to ITCAN Subsidiaries*

33. The Quebec Class Action Plaintiffs are also attempting to halt any payments by the Applicants to the their subsidiaries listed in Schedule "B" to the Initial Order (the "ITCAN Subsidiaries").

34. There are no such payments in Canada. The Applicants record intercompany journal transfers to Imperial Tobacco Products Limited, Marlboro Canada Limited, Cameo Inc., Medallion Inc., Allan Ramsay and Company Limited, John Player & Sons Ltd., and Imperial Brands Ltd. (collectively, the "Trademark Companies") pursuant to agreements granting ITCAN licenses to use their trademarks. However, the Trademark Companies do not have their own bank accounts and the Applicants only record intercompany journal transfers for the amounts owing to the Trademark Companies.

35. ITCAN makes payments to a U.S. subsidiary Imasco Holdings Group, Inc. ("IHGI"). IHGI is a largely dormant Delaware corporation that holds certain legacy obligations as a result of the historical acquisition and restructuring of various companies and businesses in the U.S. ITCAN makes capital contributions as necessary to IHGI on a monthly basis and then writes off these amounts (approximately USD $7.0 million a year). These transfers permit IHGI to make necessary payments like pension plan contributions, workers compensation, and expenses such as rent, fees for professional advisors and banking fees.

36. The vast majority of the amounts transferred to IHGI (approximately $6 million) were used to make payments under certain non-qualified deferred compensation plans for former employees of Genstar Corporation ("Genstar"), an ITCAN subsidiary, or their beneficiaries. ITCAN has decided to discontinue funding these plans during the pendency of the CCAA

proceeding and therefore the corresponding transfers to IHGI will no longer be necessary going forward.

## *VI. Other Issues*

### (a) *The Applicants Have Many Tobacco Litigation Stakeholders in Addition to the Quebec Class Action Plaintiffs*

37. The Quebec Class Action Plaintiffs have attempted to create the impression that they are somehow unique as compared to the other plaintiffs in the tobacco-related litigation. Many other plaintiffs have been advancing significant Tobacco Claims (as defined in the Initial Order) for a long time, and have invested significant time and resources in the prosecution of their claims. For example, I am advised by Craig Lockwood of Osler, Hoskin & Harcourt LLP that the Province of British Columbia has been prosecuting its Medicaid action since 1998 and it is seeking an estimated $118 billion in damages. Similarly, New Brunswick has been prosecuting its Medicaid action since 2008 for damages in the range of $11-$60 billion and its trial was scheduled to begin in November 2019 until recently.

### (b) *The Applicants Made Full Disclosure at the Initial Order Hearing*

38. In their motion materials, the Quebec Class Action Plaintiffs asserted that the Applicants failed to make full disclosure because they did not disclose that certain motions had been scheduled at the Quebec Court of Appeal to be argued on March 25, 2019. This is incorrect. I was present at the March 12, 2019 hearing and counsel to the Applicants informed Justice McEwen of these pending motions during their oral submissions.

39. In addition, the Quebec Class Actions Plaintiffs have misrepresented the events leading to the motions before the Quebec Court of Appeal and the Applicants' CCAA filing. The

Applicants did not choose to file a motion with the Quebec Court of Appeal while intending to make a CCAA filing. The Applicants' view was that (a) the judgment of the Court of Appeal for Quebec released on March 1, 2019 (the "Quebec Appeal Judgment") was not executory; (b) ITCAN's only potential obligation under the Quebec Appeal Judgment was to pay an initial deposit into its counsel's trust account within 60 days; and (c) ITCAN's share of the initial deposit would be paid using the funds ITCAN had previously posted with the court with a minor top up.

40. It soon became apparent that the Quebec Class Action Plaintiffs took a different view. Immediately upon release of the Quebec Appeal Judgment, on March 1, 2019, the Quebec Class Action Plaintiffs attended at the court registry to request that the funds paid into court by ITCAN and Rothmans Benson & Hedges Inc. be paid out to them. Once that request was denied, they filed a motion on the same day to have the funds posted with the court paid out to the Quebec Class Action Plaintiffs directly. ITCAN filed its motion seeking an interim stay of execution of the Quebec Appeal Judgment, returnable on March 4, 2019, only as a protective measure in response to the Quebec Class Action Plaintiffs' motion. As acknowledged in the Quebec Class Action Plaintiffs' motion materials, they disagreed with the Applicants' interpretation that the Quebec Class Action Plaintiffs could not take any steps to enforce the Quebec Appeal Judgment until at least 60 days had elapsed and that they set out this disagreement in an email to the Court.

41. On March 4, 2019, all of the motions before the Quebec Court of Appeal were adjourned to March 25, 2019. Following that adjournment, circumstances changed that influenced the Applicants' decision to make this CCAA filing. In particular, on March 8, 2019, JTI-MacDonald Corp. ("JTI") obtained CCAA protection.

(c) ***There are no Life Insurance Policies Related to the Genstar Deferred Income Plans***

42. I understand that a proposed Former Genstar U.S. Retiree Group Committee (the "Committee") has filed a Notice of Objection for the Comeback Hearing in this matter. The Committee has asserted that Genstar purchased life insurance policies on the life of each member of a deferred income plan ("GCDIP") and a supplemental executive retirement plan ("SERP") for certain former Genstar employees and their beneficiaries. While Genstar did purchase life insurance policies when the GCDIP and SERP were set up, those policies were all cashed out decades ago. There are no current insurance policies in place related to the GCDIP or SERP.

## *VII. Conclusion*

43. It is readily apparent that the continuation of the intercompany payments described in this Affidavit is necessary to ensure the continued vitality and profitability of the Applicants' business. There is simply no rationale for exposing the Applicants' operations to the potential serious risks that could result from ceasing their intercompany payments. Therefore, the Applicants believe that continuing the intercompany payments and maintaining their business relationships with the BAT Group is in their best interests and the best interests of all of their stakeholders.

| | |
|---|---|
| SWORN BEFORE ME at the City of Montreal, in the Province of Quebec, this 2nd day of April, 2019.<br><br>Commissaire à l'assermentation SYLVIE NADEAU # 115,222<br>Commissioner for Taking Affidavits | Eric Thauvette |

# TAB A

This is **Exhibit "A"** referred to in the Affidavit of Eric Thauvette sworn before me this 2nd day of April, 2019.

Sylvie Nadeau #115,222

A COMMISSIONER FOR TAKING AFFIDAVITS, ETC.

Commissaire à l'assermentation
SYLVIE NADEAU
# 115,222
Pour le Québec

BRITISH AMERICAN TOBACCO

# Annual Report 2012

Read the online Annual Report at www.bat.com/ar2012

# Productivity

Productivity continues to be an important part of our strategy. It provides the capabilities and resources we need to support investment in our brands so that we can grow share in our key markets.

Our globally-integrated supply chain continues to improve efficiency and effectiveness while we are making our operations flexible, agile and truly consumer-centric. Our ability to roll out innovations with speed is evolving and we continue to leverage our scale.

## Productivity savings

Cost management remains a focus across the business, and has helped to deliver an improved operating margin of 37.4%. We have also continued to improve our marketing efficiency and capital effectiveness, including reducing unnecessary complexity to save costs and using our cash and assets more effectively.

We continue to realise productivity savings from the supply chain, including indirect material procurement and overhead savings, ensuring the Group is able to invest in product enhancements and capabilities that enhance the consumer experience.

## New operating model

In 2012 the Group began a medium-term programme to implement a new operating model. This includes revised organisational structures, standardised processes and shared back-office services, underpinned by a global, single instance of SAP. The new structures and processes are currently being implemented and the deployment of the new SAP system started in the third quarter of 2012. This will take around four years to fully roll out.

## Optimising resource allocation

Our integrated supply chain enables the group to deliver growth. The transparency of demand and supply at a global level through sales and operational planning ensures we are able to deliver faster and better decision making to allocate resources. This has also allowed us to roll out innovations faster and implement machine technology standards – improving our sourcing flexibility, contingency planning and capital effectiveness.

## Global supply chain network

In 2012 we continued to optimise our manufacturing footprint. Over the past 10 years we have reduced the number of cigarette factories from 87 to 44 in 39 countries, including acquisitions. Further closures, including at Bremen in Germany, have progressed in line with expectations, while the restructuring of Boncourt in Switzerland and Vranje in Serbia were announced during the year. Investment to support continued growth ensured manufacturing sites were optimised to deliver anticipated volumes, coordinated across our global network.

Consolidation of factories around the Group continues to be undertaken responsibly and with care for affected employees and local communities. Our key factories now generally serve multiple portfolios and markets, managed through our above-market planning capability.

We are also developing industry-wide supply chain security systems with other international tobacco companies. This will include identifiers that will allow consumers and authorities to validate a product's authenticity, and digital coding technology to help governments ensure that all taxes and duties are paid.

Our track and trace technology, which allows us to monitor the movement of our products within the supply chain, was implemented in Russia, Poland, Ukraine and Belarus by the end of 2012 and is currently being introduced in Germany and Romania.

## Procurement joint venture

Agrega, our procurement joint venture with AB InBev, continues to expand its geographic reach, leverage scale and build expertise in indirect spend.

## Leaf supply chain

Our leaf supply chain is the most vertically integrated in the industry and continues to provide a competitive advantage, global visibility and cost efficiencies through the quality of our leaf, our people and through our relationships with farmers. Our proven expertise in leaf gives us a strong position to address new consumer needs and the effects of product-based regulation.

We are managing our leaf footprint to ensure sustainability of supply and guaranteeing access to quality sources of leaf.

# TAB B

This is **Exhibit "B"** referred to in the Affidavit of Eric Thauvette sworn before me this 2nd day of April, 2019.

Sylvie Nadeau #115,222

A COMMISSIONER FOR TAKING AFFIDAVITS, ETC.

Commissaire à l'assermentation
SYLVIE NADEAU
# 115,222
Pour le Québec

BRITISH AMERICAN TOBACCO

# British American Tobacco

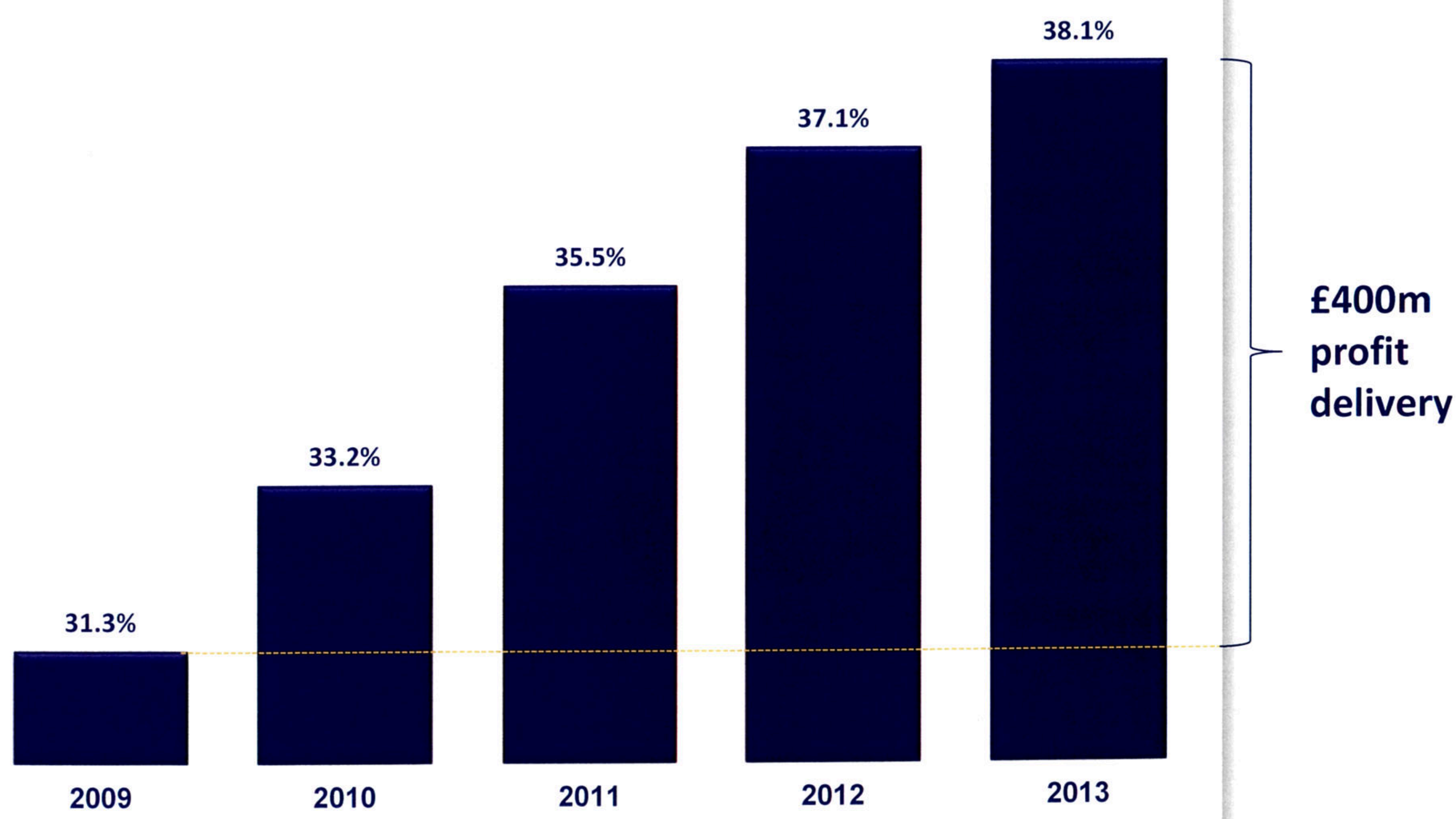
## Ben Stevens – Finance Director

## Deutsche Bank Conference, June 2014

022

# Excellent margin progression...

British American Tobacco




Source: Company's financial results, all years restated for IAS19

# … with continuing opportunities for growth

BRITISH AMERICAN TOBACCO

- Factory Footprint – 67 factories closed since 2000
- Complexity reduction – packaging rationalisation and standardisation, reduced pack formats
- Pricing – price mix in the range of 5-8%, premium share growth (+150 bps since 2010)
- OneSAP / TaO

**Confident of improving margin by 50-100 bps per year**

# Driven by a single global operating model

British American Tobacco

## OneSAP driving margin

- Single instance of SAP drives standardisation of operating model
- Shared Services and Centres of Expertise:
  - Increased value added activities
  - Enable End Markets to focus on Brands, Trade, Regulation and Talent

## OneSAP rollout progress

- Asia complete June 2014 - 28% of our volume on TaO

  Malaysia: September 2012
  Australasia: October 2013
  South Asia: January 2014
- Next: Western Europe / Centre ➡ EEMEA ➡ Americas
- Complete by 2017

# TAB C

This is **Exhibit "C"** referred to in the Affidavit of Eric Thauvette sworn before me this 2nd day of April, 2019.

Sylvie Nadeau #115,222

Commissaire à l'assermentation
SYLVIE NADEAU
# 115,222
Pour le Québec

A COMMISSIONER FOR TAKING AFFIDAVITS, ETC.

027

BRITISH AMERICAN TOBACCO

# Transforming Tobacco

Annual Report and Form 20-F 2018

# Delivering our strategy continued

## Productivity

**We have continued our drive towards a more effective and efficient globally-integrated organisation by leveraging global systems and new ways of working. This global integration allows for the lowest possible overheads cost, the most cost-effective and responsive supply chain and that productivity opportunities are fully exploited.**

### Highlights during the year

- Another year of substantial productivity savings and RAI acquisition savings on track;
- Consolidation of our Global Supply Chain Service Centre;
- Vapour and THP operations integration completed.

### Globalising operations and improving efficiency

Global systems and ways of working across the Group are utilised to minimise our cost base and maximise expertise. Furthermore, by ensuring back-office activities are carried out efficiently and effectively, the end markets are free to focus their efforts on consumer-focused activities. This drive to a globally-integrated enterprise is most apparent in our Supply Chain, Talent and Culture, Finance, Procurement and Information Technology functions.

In line with this strategy, in 2017 the Group undertook a migration to a single Enterprise Resource Planning system, and in 2018 focused on delivering data and analytic capabilities globally to identify new sources of productivity savings, while also making progress on our complexity-reduction agenda.

Additionally, the implementation of Integrated Working Systems across our factories has generated important efficiency gains, reducing waste and loss in our manufacturing processes and enabling better service levels. This has been complemented by important manufacturing footprint reviews across our regions, which have optimised asset utilisation.

The completion of our Global Supply Chain Service Centre has resulted in the synchronisation of our end-to-end supply network, which now operates as a demand-driven enterprise. This, along with significant improvements in the efficiency of equipment and machinery, has improved the reliability of our supply network and has released cash by reducing our inventory of leaf, materials and finished goods.

This investment in machinery has also led to capital expenditure being targeted to the areas of the business with the greatest return on the investment. This global view also enhances our ability to react quickly, particularly within the PRRP space. Supply Chain integration also better allows the Group to leverage capabilities and scale to improve speed-to-market, which in turn generates savings and supports the rapid deployment of cutting-edge innovations.

These continued strategic investments in new machinery in 2018, supported by our global planning systems and integrated business model, enable us to deliver 'on time and in full' in all our Key Markets at optimal cost, with speed and scale.

With the RAI integration complete we have established a best-practice sharing model that is performing above expectations, with futher savings being delivered in procurement, manufacturing and supply chain.

On the PRRP front, the revision of supplier contracts has led to significant savings, as has integrating the growth of our vapour, tobacco heating and oral product portfolios, which has allowed the Group to both leverage economies of scale and reduce complexity.

As a result, annualised cost savings from the acquisition are now totalling over US$300 million per year, and we are on track to deliver at least US$400 million per year in cost synergies by the end of 2020.

**Profit from operations (£m)**

£9,313m
+45.2%


**Definition:** Profit for the year before the impact of net finance costs/income, share of post-tax results of associates and joint ventures and taxation on ordinary activities.

**Change in adjusted profit from operations at constant rates (%)**

+37.8%

KPI
Non-GAAP


**Definition:** Change in profit from operations before the impact of adjusting items and the impact of fluctuations in foreign exchange rates.

**Operating cash flow conversion ratio@ (%)**

113%

KPI
Non-GAAP


**Definition:** Operating cash flow, as defined on page 263 as a percentage of adjusted profit from operations. Operating cash flow is not a measure defined by IFRS.

@ Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

### Net cash generated from operating activities (£m)

# £10,295m
+93%

| | | |
|---|---|---|
| 2018 | £10,295m | +93% |
| 2017 | £5,347m | +16% |
| 2016 | £4,610m | -2% |

**Definition:** Movement in net cash and cash equivalents before the impact of net cash used in financing activities, net cash used in investing activities and differences on exchange.

### Change in adjusted cash generated from operations at constant rates@ (%)

# +158%

KPI
Non-GAAP

| | |
|---|---|
| 2018 | +158% |
| 2017 | +0% |
| 2016 | +21% |

**Definition:** Change in adjusted cash generated from operations, as defined on page 264, before the impact of fluctuations in foreign exchange rates.

### Operating margin (%)

# 38.0%

| | |
|---|---|
| 2018 | 38.0% |
| 2017 | 32.8% |
| 2016 | 32.9% |

**Definition:** Profit from operations as a percentage of revenue.

### Adjusted operating margin (%)

# 42.6%

Non-GAAP

| | |
|---|---|
| 2018 | 42.6% |
| 2017 | 41.1% |
| 2016 | 38.8% |

**Definition:** Adjusted profit from operations as a percentage of adjusted revenue.

## Continued optimisation of manufacturing locations and leaf growing

In 2018, we continued to optimise our manufacturing footprint and at the end of the year had 55 factories in 48 countries.

This includes two new factories, one in Zambia and one in Malaysia.

The German factory's refocus on Other Tobacco Products (OTP), Dry Ice Expanded Tobacco (DIET) and Casing/Flavours Manufacture was completed in 2018, which marks the end of its manufacture of cigarettes. Additionally, it was announced in October 2018 that the Russian factory (Saratov) will close in Q4 2019.

We are continually looking to improve the efficiency of our entire supply chain with opportunities to improve our manufacturing operations being a particular focus. We are realising the benefits of our Integrated Work Systems, a programme that is designed to maximise equipment efficiency while ensuring we maintain high standards of product quality.

The improved equipment efficiency is delivering real benefits through improved productivity and lower maintenance costs together with reduced waste. An additional positive by-product is the release of capital expenditure which can be used to invest in further innovation.

While the Group does not own tobacco farms or directly employ farmers, it sources over 400,000 tonnes of tobacco leaf each year directly from over 90,000 contracted farmers and through third-party suppliers mainly in developing countries and emerging markets.

We continually strive to improve farmer sustainability and viability with a focus on improved quality, reduced costs of production and increased yield. As a result, we review our contracts on an annual basis to ensure that production is aligned to the needs of both the farmer and the Group.

The Group also purchases a small amount of tobacco leaf from India where the tobacco is bought over an auction floor. The price of tobacco in US dollars varies from year-to-year driven by domestic inflationary pressures, supply, demand and quality. The Group believes there is an adequate supply of tobacco leaf in the world markets to satisfy its current and anticipated production requirements.

## Ongoing productivity savings

By operating globally, exploiting our systems and striving for results, the Group delivered substantial productivity savings in 2018, supported in large part by the acquisition of Reynolds American which will continue to provide further opportunities for productivity savings.

These savings are returned to the business for re-investment and to increase shareholder return. The following examples show how the Group considers all opportunities in the supply chain, including procurement, international logistics and leaf operations:

### Procurement

Global visibility of forward demand and product specifications in one system has delivered significant benefits with the tender at a global level of print materials and tow being notable examples. In addition to the benefits of lower product cost, the development of long-term supplier relationships with key suppliers has improved security of supply and enabled higher flexibility in the supply chain.

### International logistics

Whether by road, air or sea, our logistics are organised and controlled centrally. This facilitates opportunities to negotiate globally with third-party providers and allows us to benefit from our scale. Furthermore, this maximises the use of return shipments and economic order quantities to allow for maximum efficiency while maintaining the flexibility for fast response to market opportunities.

### Leaf operations

These are similarly managed globally to ensure that the Group works with reliable, efficient and responsible farmers in our source countries. Our Global Leaf Pool operation aggregates demand to meet supply across all internationally traded tobacco. This approach balances the lowest possible working capital investment while reducing our exposure to crop failure (from changes in climate) and guaranteeing the best quality leaf to meet consumer demands.

In 2018, while transactional foreign exchange rates again had a negative effect on our cost base, we continued to improve our productivity in all areas of our supply chain and elsewhere in the Group. As a result, we have increased our profitability and continue to deliver returns to our shareholders today and invest in the future.

@ Denotes phrase, paragraph or similar that does not form part of BAT's Annual Report on Form 20-F as filed with the SEC.

**N THE MATTER OF the *Companies' Creditors Arrangement Act*, R.S.C. 1985, c. C-36, as amended**

Court File No: CV-19-616077-00CL

**ND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF IMPERIAL 'OBACCO CANADA LIMITED AND IMPERIAL TOBACCO COMPANY LIMITED**

**APPLICANTS**

***Ontario***
**SUPERIOR COURT OF JUSTICE**
**(COMMERCIAL LIST)**

Proceeding commenced at Toronto

**AFFIDAVIT OF ERIC THAUVETTE**
(Sworn April 2, 2019)

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Imperial Tobacco Canada Limited
and Imperial Tobacco Company Limited

Matter No: 1144377

**IN THE MATTER OF the *Companies' Creditors Arrangement Act,* R.S.C. 1985, c. C-36, as amended**

**AND IN THE MATTER OF A PLAN OF COMPROMISE OR ARRANGEMENT OF IMPERIAL TOBACCO CANADA LIMITED AND IMPERIAL TOBACCO COMPANY LIMITED**

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**RESPONDING MOTION RECORD OF IMPERIAL TOBACCO CANADA LIMITED AND IMPERIAL TOBACCO COMPANY LIMITED FOR COMEBACK HEARING**
**(Motion Returnable April 4 and 5, 2019)**

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